

CLINTON COUNTY SCHOOL DISTRICT

**AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**

For The Year Ended June 30, 2005

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Clinton County School District
Albany, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clinton County School District (the "District"), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Clinton County School District. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements* and *Appendix II to the Independent Auditor's Contract - State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Clinton County School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, the Special Revenue Fund, and the Construction Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Kentucky State Committee for School District Audits
Members of the Board of Education
Clinton County School District

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2005, on our consideration of Clinton County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clinton County School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards contained on pages 47 and 48 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Clinton County School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Wilson & Company, PSC". The signature is written in a cursive, flowing style.

October 24, 2005

**CLINTON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2005**

As management of the Clinton County School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$1,124,723.
- The ending cash balance for the District was \$3,093,414.
- The board initiated four new major construction projects and issued two new bonds in fiscal 2005.
- The District refinanced the 1996 series bonds with 2005 series bonds of \$1,860,000 resulting in a net economic gain of \$95,791.
- The District renovates and constructs facilities consistent with a long-range facilities plan that is established with community input and is in compliance with Kentucky Department of Education (KDE) regulations.
- The District recognized \$4.9 million in miscellaneous revenue due to the contribution of land and facilities from the Clinton County Empowerment Zone Community, Inc.
- The District's total debt increased by \$1.1 million during the current fiscal year.
- Following the completion of the District's long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need but the Board authorized no transfers of money to capital projects.
- The District remains committed to increasing teacher salaries.
- The General Fund had approximately \$15.1 million in revenue, which primarily consisted of the state program (SEEK), property, local occupational license taxes, utilities, motor vehicle taxes and contributions. Excluding inter-fund transfers, there were approximately \$14.6 million in General Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Taxes and intergovernmental revenues also support fixed assets and related debt.

The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 7 through 16 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$11.7 million as of June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Net Assets for the period ending June 30, 2005

Following is a summary of the District's government-wide net assets for the fiscal year ended June 30, 2005 and 2004:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current Assets	\$ 3,326,385	\$ 2,162,939
Noncurrent Assets	<u>17,722,571</u>	<u>11,520,268</u>
Total Assets	<u>21,048,956</u>	<u>13,683,207</u>
Current Liabilities	1,706,489	920,643
Noncurrent Liabilities	<u>7,681,161</u>	<u>6,744,346</u>
Total Liabilities	<u>9,387,650</u>	<u>7,664,989</u>
Net Assets		
Investment in capital		
assets (net of debt)	9,434,202	4,300,174
Restricted for debt service	24,814	23,715
Unreserved Fund Balance	<u>2,202,290</u>	<u>1,694,329</u>
Total Net Assets	<u>\$11,661,306</u>	<u>\$ 6,018,218</u>

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2005, net of inter-fund transfers, were \$20.1 million.
- General Fund budget compared to actual revenue varied from line item to line item with the ending actual balance being approximately \$7.4 million more than budget or approximately 98% due largely to unbudgeted on-behalf payments for retirement and insurance made by the state in the amount of \$1,842,436 and contributions of land and facilities made by the county in the amount of \$4,875,276. If this amount is removed from consideration, the difference between actual revenue and budgeted revenue is approximately 9%.
- The total cost of all programs and services was approximately \$14.1 million net of debt service.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2005 and June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues		
Local revenue sources	\$ 7,222,774	\$ 2,294,012
State revenue sources	9,743,963	9,228,102
Federal sources	3,082,777	3,195,622
Interest income	86,345	104,028
Other sources	<u>23</u>	<u>4,414</u>
Total revenues	<u>20,135,882</u>	<u>14,826,178</u>
Expenses		
Instruction	8,398,966	8,014,353
Student Support Services	507,663	554,437
Instructional Support	583,227	580,918
District Administration	477,663	421,109
School Administration	618,189	598,621
Business Support	101,874	92,920
Site Improvement	-	1,545
Plant Operations	1,017,956	929,760
Student Transportation	939,977	820,185
Food service operations	1,058,103	985,289
Community Services	427,624	386,471
Site Acquisition	2,450	19,377
New Building Construction	-	84,622
Debt service	<u>362,945</u>	<u>332,547</u>
Total expenses	<u>14,496,637</u>	<u>13,822,154</u>
Expense in Excess of Revenue	<u><u>\$ 5,639,245</u></u>	<u><u>\$ 1,004,024</u></u>

GENERAL FUND REVENUE

The majority of revenue, 48.4%, was derived from state sources. Federal sources accounted for 15.3% and local and other sources accounted for the remaining 36.3%.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$850,000 in contingency (9.3%). The beginning cash balance for beginning the fiscal year was \$1.1 million. There was no significant Board action that impacted the finances during the current year.

Questions regarding this report should be directed to Superintendent Mickey McFall (606) 387-5437 or to Director of Finance Jack York (606) 387-5437 or by mail at Route 4, Box 100, Albany, Kentucky 42602.

**CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2005**

1. REPORTING ENTITY

The Clinton County Board of Education (the Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Clinton County School District (the District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial reporting purposes, includes all of the funds and account groups relevant to the operation of the Clinton County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing Board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements. Copies of component unit reports may be obtained from the District's Finance Office at Route 4, Box 100, Albany, Kentucky 42602.

Clinton County School District Finance Corporation

The Clinton County, Kentucky, Board of Education has established of the Clinton County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Clinton County Board of Education also comprise the Corporation's Board of Directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Clinton County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Government-wide statements—provide information about the primary government (the District) as a whole. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and for each segment of its business-type activities. Direct expenses are those that are specifically associated with a service, program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund financial statements—provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The District has the following funds:

Governmental Fund Types

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction expenditures. This is a major fund of the District.

The *Debt Service Funds* are used to account for the accumulation of resources for and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Proprietary Funds (Enterprise Fund)

Enterprise Funds are used to account for any activity for which a fee is charged to external uses for goods and services. The District's only Enterprise Fund is the School Food Service Fund. The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary Fund Types (includes agency and trust funds)

The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is not recognized until there is an enforceable legal claim. This legal claim does not arise until the taxes become delinquent, which is the fiscal year after the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deferred revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditure) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District.

The tax rates assessed for the year ended June 30, 2005 to finance general fund operations were \$.40 on real estate, \$.53 per \$100 valuation on tangible property and 3% for utility tax.

Taxes are due on October 1 and become delinquent by February 1 following the October 1 levy date.

In-Kind

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on various grants. The District also receives commodities from U.S.D.A. The amounts of such services and commodities are recorded in the accompanying financial statements at their estimated fair market values.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Accounts Receivable

Receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts are based upon historical trends and periodic aging of accounts receivable. Major receivable balances for the governmental activities include federal and state funding and taxes. Amounts on the statements are net of allowance for doubtful accounts.

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Funds, which records inventory using the accrual basis of accounting. Inventories are stated at the lower of cost or market, on the first-in, first-out basis.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost if actual is unavailable) and updated for additions and retirements during the year. Donated fixed assets are recorded at their estimated fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	50 years
Building improvements	25 years
Technology equipment	5 years
School Buses	10 years
Vehicles	5 years
Food service equipment	5 years
Other general	7-10 years

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

The Districts budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of debt obligations, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, all payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

3. CASH AND CASH EQUIVALENTS

At June 30, 2005, the carrying amount of the Board's cash and cash equivalents was \$3,093,414 and the bank balances totaled \$4,264,283. Of the total bank balances, \$200,000 was insured by the Federal Depository Insurance Corporation, with the remainder secured by collateral held in the name of the financial institution and pledged to the District. The securities cannot be moved or redeemed without the prior approval of the District.

Due to the nature of the accounts and certain limitations imposed on the use of funds, the portion of the cash balance within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Technology Fund (accounted for within the Special Revenue Fund), Special Revenue Fund, Debt Service Fund, School Construction Fund, School Food Service Funds, and School Activity Funds.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Primary Government				
<u>Governmental Activities</u>				
Capital Assets, Not Depreciated				
Land	\$ 6,068,070	\$ 149,784	\$ -	\$ 6,217,854
Capital Assets, Depreciated				
Land Improvements	999,616	63,748	-	1,063,364
Building and Building Improvements	6,175,953	6,039,722	-	12,215,675
Construction In Progress	-	14,710	-	14,710
Technology Equipment	1,021,657	206,748	(27,503)	1,200,902
Vehicles	1,866,966	120,586	(39,980)	1,947,572
General Equipment	102,929	45,460	-	148,389
Totals	<u>16,235,191</u>	<u>6,640,758</u>	<u>(67,483)</u>	<u>22,808,466</u>
Accumulated Depreciation				
Land Improvements	(428,407)	(50,384)	-	(478,791)
Building and Building Improvements	(2,105,547)	(185,995)	-	(2,291,542)
Technology Equipment	(818,953)	(89,057)	26,697	(881,313)
Vehicles	(1,399,667)	(76,869)	39,980	(1,436,556)
General Equipment	(39,368)	(41,361)	-	(80,729)
Totals	<u>(4,791,942)</u>	<u>(443,666)</u>	<u>66,677</u>	<u>(5,168,931)</u>
Governmental Activities, Capital Assets, Net	<u>\$ 11,443,249</u>	<u>\$ 6,197,092</u>	<u>\$ (806,000)</u>	<u>\$ 17,639,535</u>

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

4. CAPITAL ASSETS, Continued

	Beginning Balance	Additions	Disposals	Ending Balance
<u>Business - Type Activities</u>				
Capital Assets, Depreciated				
Technology Equipment	\$ 1,700	\$ -	\$ -	\$ 1,700
General Equipment	<u>376,176</u>	<u>-</u>	<u>-</u>	<u>376,176</u>
Total Depreciable Cost	377,876	-	-	377,876
Less accumulated depreciation				
Technology Equipment	(396)	(340)	-	(736)
General Equipment	<u>(270,461)</u>	<u>(23,642)</u>	<u>-</u>	<u>(294,103)</u>
Total Accumulated Depreciation	(270,857)	(23,982)	-	(294,839)
Total Depreciable Cost Net	<u>107,019</u>	<u>(23,982)</u>	<u>-</u>	<u>83,037</u>
Business - Type Activities, Capital Assets, Net	<u>\$ 107,019</u>	<u>\$ (23,982)</u>	<u>\$ -</u>	<u>\$ 83,037</u>
Primary Government Capital Assets, Net	<u>\$ 11,550,268</u>	<u>\$ 6,173,110</u>	<u>\$ (8,060)</u>	<u>\$ 17,722,572</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 286,574
Support services	
Student	1,261
Instruction staff	5,495
District administration	7,014
School administration	9,227
Plant operations and maintenance	25,034
Student transportation	73,817
Other	<u>5,244</u>
Total	<u>\$ 413,666</u>

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

5. DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the Board's future obligations to make debt payments relating to the bonds issued by the Clinton County Fiscal Court and the Clinton County School District Finance Corporation ("CCSDFC"), aggregating \$9,280,000 and by Kentucky Interlocal School Transportation Association, aggregating \$854,794.

Bonds

The General Fund, Facilities Support Program (FSPK) Fund and the SEEK Capital Outlay Fund are obligated to make debt payments. The agreements provide among other things, for payments sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court and the CCSDFC to construct school facilities.

The original amount of present outstanding issues, the issue dates, and interest rates are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>
Issue of 1997	960,000	4.350% to 5.200%
Issue of 1998A	4,380,000	3.750% to 4.100%
Issue of 1999	720,000	4.400%
Issue of 2005E	1,360,000	3.000% to 4.200%
Issue of 2005	1,860,000	2.800% to 3.600%
	<u>\$ 9,280,000</u>	

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue.

Defeasance of Debt

On June 23, 2005, the board issued revenue refinancing bonds of \$1,860,000 with interest rates varying from 2.800% to 3.600% to advance refund the 1996 series bonds with interest rates varying from 4.125% to 5.250%. The new issue proceeds were placed in an escrow account where the funds will remain to pay interest due and redeem the outstanding 1996 series bonds maturing after June 1, 2007 in the principle amount of \$1,725,000 on February 1, 2006 at the redemption price of 102%. As a result the refinanced bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$135,000. This amount was netted against the new debt and amortized over the remaining life of the refinanced debt. This advance refunding was undertaken to reduce future total debt service payments over the next 10 years by \$112,261 with a resulting net economic gain of \$95,791.

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

5. DEBT OBLIGATIONS, Continued

Capital Leases

The General Fund is obligated to make debt payments. The agreements provide among other things, for payments sufficient to satisfy debt service requirements on bonds issued by the Kentucky Interlocal School Transportation Association and the District to purchase school buses.

The original amount of present outstanding issues, the issue dates, and interest rates are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>
Issue of 1998B	\$ 197,822	3.50% to 4.20%
Issue of 2000A	136,043	4.30% to 5.30%
Issue of 2000B	133,076	4.15% to 4.60%
Issue of 2001	139,163	3.50% to 4.70%
Issue of 2004	123,620	1.00% to 3.50%
Issue of 2005	125,070	3.00% to 3.625%
	<u>\$ 854,794</u>	

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue.

A summary of activity in bond obligations and other debts is as follows:

<u>Description</u>	<u>Balance at June 30, 2004</u>	<u>Issued</u>	<u>Payments</u>	<u>Balance at June 30, 2005</u>	<u>Amounts Due Within One Year</u>
General obligation bonds – \$9,800,000 originally issued with various interest rates	\$ 6,705,000	\$3,220,000	\$2,205,000	\$ 7,720,000	\$ 600,000
KISTA bonds- \$854,794 originally issued with various interest rates	515,094	125,070	71,795	568,369	87,542
Accumulated unpaid Sick leave benefits	76,047	4,287	-	80,334	-
	<u>\$ 7,296,141</u>	<u>\$3,349,357</u>	<u>\$2,276,795</u>	<u>\$ 8,368,703</u>	<u>\$ 687,542</u>

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

5. DEBT OBLIGATIONS, Continued

In connection with all bond issues, the Board entered into a participation agreement with the Kentucky School Facilities Construction Commission, whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) toward the payment of principal and interest requirements on the bonds. The agreement is in effect for a period of two years. The obligation of the Commission to make said payments shall automatically renew every two years, unless the Commission provides the Board notice of its intention not to participate within sixty days prior to the expiration of the two year period.

Assuming no issues are called prior to scheduled maturity and that the Kentucky School Facilities Construction Commission continues to renew its agreement, the minimum obligations at June 30, 2005 for debt service (principal and interest) are as follows:

Year	Clinton County School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2006	\$ 393,835	\$ 197,396	\$ 293,707	\$ 101,296	986,234
2007	391,252	205,514	302,424	92,847	992,037
2008	397,252	191,783	313,871	81,399	984,305
2009	410,857	177,612	325,756	69,514	983,739
2010	403,931	162,726	338,127	57,145	961,929
2011	400,942	147,763	351,403	43,867	943,975
2012	399,694	132,762	365,526	30,014	927,996
2013	401,653	117,391	53,046	14,721	586,811
2014	407,839	103,339	55,286	12,482	578,946
2015	414,323	88,581	57,645	10,123	570,672
2016	414,875	73,370	60,125	7,642	556,012
2017	456,218	49,055	43,782	5,015	554,070
2018	473,696	26,038	41,304	3,077	544,115
2019	172,296	12,081	32,704	1,439	218,520
2020	115,000	4,830	-	-	119,830
	<u>\$ 5,653,663</u>	<u>\$ 1,690,241</u>	<u>\$ 2,634,706</u>	<u>\$ 530,581</u>	<u>\$ 10,509,191</u>

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

6. ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2005, this amount totaled \$80,334. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. The District follows a policy of funding the estimated portion payable in one year based upon a historical average as a reservation of the General Fund balance.

7. RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

All certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years service. Benefits are subject to certain reductions if the employee retires before reaching age sixty, unless the employee has twenty-seven or more years of participation in the plan. The plan also provides for disability retirement, death and survivor benefits and medical insurance.

The Kentucky Teachers Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or by calling (502) 573-5120.

Funding for the plan is provided from eligible employees who contribute 9.855% of their salary through payroll deductions and by the Commonwealth of Kentucky through matching contributions at the rate of 13.105%. The matching contributions are paid by the Federal programs for any salaries paid by these programs. Kentucky-Revised Statute and the KTRS Board of Trustees establish contribution requirements of the plan members and the District. Contributions to KTRS made on behalf of the District by the Commonwealth of Kentucky for the year ended June 30, 2005 were \$640,847 and the Board paid \$181,274 from federal grant monies to KTRS in matching contributions for federally funded employees for a total of \$822,121 paid to KTRS, equal to the required contribution for the year.

B. County Employee's Retirement System:

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

7. RETIREMENT PLANS, Continued

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 8.48% of the employee's total compensation. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's contributions to CERS for the year ending June 30, 2005, 2004 and 2003 were \$186,738, \$150,812 and \$232,428, respectively, equal to the required contributions for each year.

8. CONTINGENCIES

The District receives funding from Federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

9. INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include worker's compensation insurance.

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

12. ON-BEHALF PAYMENTS

For fiscal year 2004, the Commonwealth of Kentucky contributed payments on behalf of the Clinton County School District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$640,847
Health and Life Insurance, Flexible Spending Plan, and Administrative Fees	\$941,300
State Operated Vocational Education	\$260,289

These amounts are included in the District-Wide Statement of Activities as State Revenue and an expense allocated to the different functions in the same proportion as full-time employees.

CLINTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

13. TRANSFER OF FUNDS

The following transfers were made during the year.

Type	From Fund	To Fund	Purpose	Amount
Operating	Building Fund	Constuction Fund	Construction	\$ 41,998
Operating	Building Fund	Debt Service	Debt Service	\$ 374,538
Operating	Capital Outlay Fund	Constuction Fund	Construction	\$ 139,470
Operating	General Fund	Debt Service	Debt Service	\$ 92,586
Operating	Food Service Fund	General Fund	Indirect Costs	\$ 39,130
Operating	General Fund	Special Revenue Fund	Matching Grants	\$ 31,406
Operating	Special Revenue Fund	General Fund	Indirect Costs	\$ 39,624

REQUIRED SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Clinton County School District
Albany, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Clinton County School District (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements* and *Appendix II to the Independent Auditor's Contract - State Audit Requirements* and *Appendix III to the Independent Auditor's Contract - Electronic Submission*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Clinton County School District in a separate letter dated October 24, 2005.

Kentucky State Committee for School District Audits
Members of the Board of Education
Clinton County School District

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract - Electronic Submission*.

This report is intended solely for the information and the use of the Board and management of the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Wilson & Company, PSC". The signature is written in a cursive, flowing style.

October 24, 2005



WILSON & COMPANY, PSC
Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Clinton County School District
Albany, Kentucky

Compliance

We have audited the compliance of the Clinton County School District (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Clinton County School District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Kentucky State Committee for School District Audits
Members of the Board of Education
Clinton County School District

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error and fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board and management of the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Wilson & Company, PSC". The signature is written in a cursive, flowing style.

October 24, 2005

**CLINTON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2005**

(A) SUMMARY OF AUDIT RESULTS

1. An unqualified opinion was issued on the basic financial statements.
2. The audit of the basic financial statements of Clinton County School District as of and for the year ended June 30, 2005, did not disclose any internal control related reportable conditions.
3. The audit did not disclose any noncompliance which is material to the basic financial statements of Clinton County School District as of and for the year ended June 30, 2005.
4. There were no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance over major programs.
6. The audit did not disclose any findings and questioned costs related to federal awards for the year ended June 30, 2005.
7. The District had the following major programs for the year ended June 30, 2005:

<u>Program Title</u>	<u>CFDA Number</u>
Food Service Cluster	
National School Lunch Program	10.555
National School Summer Meal Reimbursement	10.559
Summer Sponserhip	10.559
National School Breakfast Program	10.553
Commodities Program	10.559
Title I	84.010

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The District qualified as a low-risk auditee under OMB Circular A-133 *Audits of States, Local Governments and Non-profit Organizations*.

**(B) FINDINGS RELATED TO FINANCIAL STATEMENTS IN ACCORDANCE WITH
GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS**

None noted in the current year.

(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no findings in the current year.

**CLINTON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended June 30, 2005**

There were no findings in the prior year.

**CLINTON COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
For The Year Ended June 30, 2005**

No corrective action plan needed in the current year.



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Kentucky State Committee for School District Audits
Members of the Board of Education
Clinton County School District
Albany, Kentucky

In planning and performing our audit of the general purpose financial statements of Clinton County School District (the "District") for the year ended June 30, 2005, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 24, 2005, contains our report on internal control over financial reporting which disclosed no internal control related matters which were considered to be material weaknesses. This letter does not affect our report dated October 24, 2005, on the general purpose financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

October 24, 2005

**CLINTON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
For The Year Ended June 30, 2005**

Finding - During our payroll testing sample of forty paychecks, three instances were noted of no supervisory approval for extra pay related to extra bus trips.

Recommendation for Improvement - Supervisors should approve and document their approval of any extra pay.

District's Response - Finance officer will be instructed to verify Transportation Director's signature on all extra bus trip documents prior to payment.

Finding – During our disbursements testing sample of sixty checks, five checks were found to be supported by purchase orders that were completed after the invoice was received. Two checks were found to have been written for an amount other than that on the supporting invoice, albeit the amounts were minimal.

Recommendation for Improvement – Prior to purchases, a purchase order should be fully completed and approved. Prior to issuance of checks, the payment amount should be matched to the supporting invoices by personnel other than the person preparing the checks.

District's Response – Personnel will be instructed to follow proper procedures that will prevent this in the future.

Finding – Food Service Fund was found to be delinquent in their remittance of indirect costs to the General Fund for overhead expenditures. No personnel at the Food Service or General Fund were tracking the timeliness of these remittances.

Recommendation for Improvement – A system should be put into place to track the indirect costs to assure timely remittance.

District's Response – Personnel will be assigned to these duties.

**CLINTON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS, Continued
For The Year Ended June 30, 2005**

Finding - The District's school activity funds were noted for using the following inappropriate procedures:

- Not appropriately using purchase orders to initiate transactions and document prior approval for a transaction - Clinton County High School, Middle School and Albany Elementary,
- Including PTA activity/money in activity fund – Albany Elementary,
- Not documenting and reporting fund transfers on the annual financial report – Albany Elementary,
- Checks written for payment of invoices that were returned from the bank for missing endorsement were handled improperly as in they were reported on the monthly and annual financial reports in duplicate- Albany Elementary.

Recommendation for Improvement - All schools should follow the procedures set out in Accounting Procedures for Kentucky School Activity Funds. This includes the necessary procedures to appropriately initiate and document purchases, monitor activity balances, receipt and deposit revenues, and report monthly and annual activity.

District's Response - School personnel will be instructed regarding Accounting Procedures for Kentucky School Activity Funds.